

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CLINTON AREA TRANSIT SYSTEM	County CLINTON
Fiscal Year End SEPTEMBER 30, 2006	Opinion Date NOVEMBER 30, 2006	Date Audit Report Submitted to State MARCH 29, 2007	

We affirm that:

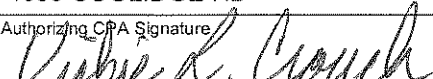
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.		Telephone Number 517-332-1900	
Street Address 1000 COOLIDGE RD		City EAST LANSING	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name VICKIE L. CROUCH	License Number 1101013436	

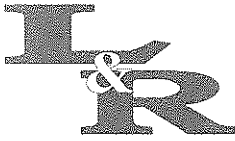
CLINTON AREA TRANSIT SYSTEM
CLINTON COUNTY
ST. JOHNS, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clinton Area Transit System
Charlotte, Michigan

We have audited the accompanying financial statements of the business-type activities of Clinton Area Transit System as of and for the year ended September 30, 2006, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Clinton Area Transit System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Clinton Area Transit System as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the required supplementary information on pages 4 through 10 and 26 through 39 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clinton Area Transit System's basic financial statements. The accompanying schedule of expenditures is for purpose of additional analysis as required by audits of states, local governments and non-profit organizations, and is not part of the general purpose financial statements of Clinton Area Transit System. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2006 on our consideration of Clinton Area Transit System's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report considering the results of our audit.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
November 30, 2006

Clinton Area Transit System Management's Discussion and Analysis

The goal of this discussion and analysis is to provide highlights to the Clinton Area Transit System's (Clinton Transit) financial activities for the Fiscal Year ended September 30, 2006. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

Financial Highlights

- **Assets:** Clinton Transit assets exceeded its liabilities by \$325,760. All of this amount may be used to meet ongoing Transit obligations to citizens and creditors. The total assets increased by \$104,830. The increase was due to the following: purchasing one new bus, Bus 11, during the Fiscal Year at a cost of \$24,999, thirty radios, a computer and maintenance tools.
- **Ridership** increased from FY 2005's ridership of 39,088 to 45,112, up 15 %. The total operating miles increased from the FY 2005's total of 277,739, to FY 2006's 334,258, up 20%. In August 2005, a millage was passed by the residents of Clinton County which allowed for this increase in service with the current aging fleet.
- **Funding** from FY 2005 (Section 5309), Z11 became available March, 2006 for \$1.4 Million to purchase much needed vehicles, facility, computer/GPS, maintenance, and communication equipment.

Overview of the Financial Statements

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of Clinton Transit, which include notes that explain in more detail some of the information in the financial statements. This report is presented in a format as required by GASB Statement No. 34.

As an Act 196 Transit Authority, Clinton Transit provides demand-response service for residents of Clinton County and for people who work in Clinton County. Transportation purposes are medical, employment, recreation, education and shopping.

Clinton Area Transit System

Management's Discussion and Analysis

Required Financial Statements

The financial statements report information on Clinton Transit using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of Clinton Transit's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of Clinton Transit creditors (liabilities). It also provides the basis for evaluating the capital structure of Clinton Transit and assessing the Authority's liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of Clinton Transit's operations over the past year and can be used to determine whether Clinton Transit has successfully recovered all of its costs through user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of Clinton Area Transit System

The Statement of Net Assets and the Statement of Activities provides the information to determine how Clinton Transit did financially during FY 2006 and 2005. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining Clinton Transit's financial health.

Net Assets

Clinton Transit's Condensed Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Fund Net Assets are presented in the following Tables. Comparative financial data is included for FY 2006 and FY 2005.

**Clinton Area Transit System
Management's Discussion and Analysis**

**Table 1
Condensed Statement of Net Assets
FY 2006 – FY 2005**

	FY 2006	FY 2005
Current Assets	\$232,445	\$109,776
Fixed Assets	<u>138,937</u>	<u>156,776</u>
Total Assets	<u>\$371,382</u>	<u>\$266,552</u>
Current Liabilities	\$ 38,000	\$ 73,864
Note Payable to Bank		71,900
Other Current Liabilities	<u>7,622</u>	<u>15,472</u>
Total Current Liabilities	45,622	161,236
Invested in Capital Assets	138,937	156,775
Unrestricted	<u>186,823</u>	<u>(51,459)</u>
Total Net Assets	<u>\$ 325,760</u>	<u>\$105,316</u>

**Clinton Area Transit System
Management's Discussion and Analysis**

**Table 2
Condensed Statement of Revenue, Expenses,
And Changes in Fund Net Assets
FY 2006 – FY 2005**

	FY 2006	FY 2005
Operating Revenue	\$210,319	\$160,337
Non-operating Revenue	<u>675,974</u>	<u>399,098</u>
Total Revenue	886,293	559,435
Depreciation Expense	68,194	61,356
Other Operating Expenses	<u>597,655</u>	<u>474,023</u>
Total Expenses	665,849	535,379
Change in Net Assets(Retained Earnings)	220,444	24,056
Beginning Net Assets(Retained Earnings)	<u>105,316</u>	<u>81,260</u>
Ending Retained Earnings(Retained Earnings)	<u>\$ 325,760</u>	<u>\$105,316</u>

The Statement of Net Assets shows the change in financial position of net assets. The Depreciation expense of \$68,194 and \$61,356 is a non-cash expense, which represents the reduction in the value of vehicles and office equipment. Due to the nature of Clinton Transit's capital, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

Clinton Transit's operating revenue increased by \$49,982 due to contracts with educational and health institutions. Non-operating revenue increased by approximately 69%, or \$276,876 primarily due to receiving, for the first time, millage monies.

Total operating expenses has increased by 26%, or \$123,632 which was expected due to the increase of service with resulting increases in labor, bus maintenance and fuel costs.

**Clinton Area Transit System
Management's Discussion and Analysis**

Capital Assets

The acquisition of new vehicles is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This funding source also allows Clinton Transit to use all of its operating revenues on daily service and not tie up those incomes with debt payments for equipment. Following State depreciation guidelines, expected life of vehicles is 5 (five) years.

- Funding from FY 2005 (Section 5309), Z11 enabled Clinton Transit to order 12 buses which will be delivered in late fall of 2006 and 5 minivans to be delivered in spring of 2007.

**Table 3
Capital Assets
FY 2006 – FY 2005**

	FY 2006	FY 2005
Buses	\$508,450	\$464,187
Van & Minivans	205,088	205,088
Office Furniture & Equipment	<u>45,352</u>	<u>39,260</u>
Subtotal	\$758,890	\$708,535
Less: Accumulated Depreciation	(619,953)	(551,759)
Net Property & Equipment	<u>\$138,937</u>	<u>\$156,776</u>

Debt Administration

Clinton Transit has no long term debt as of September 30, 2006.

As of September 30, 2006 and 2005, the significant debt issue for Clinton Transit was a Note Payable to Firstbank of St. Johns of \$0 and \$71,900, respectively.

Clinton Area Transit System
Management's Discussion and Analysis
Economic Factors

Many of the funds that subsidize public transportation operations are appropriated by both State and Federal governments.

Section 5311 Federal operating funds have increased as detailed in the table below: The net change in federal operating dollars of \$42,950 is due to increase in expenditures and instead of subsidy percentage.

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$435,000	\$46,448	10.68%		
FY 03	\$467,500	\$51,191	10.68%	\$4,743	0.0%
FY 04	\$421,500	\$46,154	10.95%	\$(5,037)	0.0%
FY 05	\$402,460	\$49,905	12.40%	\$3,751	1.45%
FY 06	\$596,737	\$89,510	15.00%	\$39,605	2.6%
FY 07	\$883,071	\$132,460	15.00%	\$42,950	0.0%
FY 08	\$1,253,497	\$188,025	15.00%	\$55,565	0.0%

State operating assistance was increased from FY 05, an increase of .81% as detailed in the table below:

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$ 435,000	\$199,457	45.85%		
FY 03	\$ 467,500	\$204,765	43.80%	\$ 5,308	-2.05%
FY 04	\$ 421,500	\$178,027	42.24%	\$ (26,738)	-1.56%
FY 05	\$ 402,460	\$154,696	38.44%	\$ (23,331)	-3.80%
FY 06	\$ 596,737	\$234,219	39.25%	\$ 66,989	+.81%
FY 07	\$ 883,071	\$346,605	39.25%	\$112,386	0.0%
FY 08	\$1,253,497	\$484,100	39.62%	\$137,495	+.37%

Clinton Area Transit System Management's Discussion and Analysis

The \$112,386 net increase in state operating dollars from FY 06 to FY 07 is due to the increase in expenditures instead of subsidy percentage.

Clinton Transit's August 2005, millage passed for the first time. The millage was passed by 1,865 votes, with 3,852 voting yes and 1,987 voting no.

The millage for 2006 was levied at .20 which is necessary to significantly expand service to all the residents of Clinton County. Currently, priority is given to medical trips, persons with disabilities, and senior citizens. Many areas of the county receive very limited or no service. Target date for expansion of service to all areas of the county is spring of 2007 after receiving purchased vehicles and hiring drivers.

Contact Information

This financial report is designed to provide our customers and creditors with a general overview of Clinton Transit's' finances and demonstrate the Authority's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the General Manager for Clinton Area Transit System at 304 N. Brush Street, St. Johns, Michigan, 48879. The telephone number is (989) 224-8127.

CLINTON AREA TRANSIT SYSTEM

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 99,185
Investment	75,790
Accounts receivable	12,557
Due from other governmental units	35,749
Prepaid expenses	9,164
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TOTAL CURRENT ASSETS	232,445
	<hr/>

CAPITAL ASSETS

Vehicles	713,538
Equipment	45,352
	<hr/>
TOTAL CAPITAL ASSETS	758,890
Less: accumulated depreciation	(619,953)
	<hr/>
NET CAPITAL ASSETS	138,937
	<hr/>
TOTAL ASSETS	\$ 371,382
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 26,988
Accrued payroll	11,012
	<hr/>
TOTAL CURRENT LIABILITIES	38,000
	<hr/>

LONG-TERM LIABILITIES

Accrued vacation and sick pay	7,622
	<hr/>
TOTAL LIABILITIES	45,622
	<hr/>

NET ASSETS

RETAINED EARNINGS

Unreserved	325,760
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 371,382
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See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	PROGRAM REVENUES				BUSINESS TYPE ACTIVITIES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	
FUNCTIONS/PROGRAMS					
Primary Government					
Business-Type Activities	\$ <u>665,849</u>	\$ <u>214,619</u>	\$ <u>334,812</u>	\$ <u>50,355</u>	\$ <u>(66,063)</u>
General Revenues					
Property tax revenue					281,281
Miscellaneous revenue					2,100
Unrestricted investment earnings					<u>3,126</u>
Total General Revenues					<u>286,507</u>
Change in Net Assets					220,444
NET ASSETS, OCTOBER 1					<u>105,316</u>
NET ASSETS, SEPTEMBER 30					\$ <u><u>325,760</u></u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OPERATING REVENUES	\$ 210,319
OPERATING EXPENSES	<u>665,849</u>
LOSS FROM OPERATIONS	<u>(455,530)</u>
NONOPERATING REVENUES	
Federal sources	143,363
State sources	241,804
Local sources	<u>290,807</u>
TOTAL NONOPERATING REVENUES	<u>675,974</u>
NET INCOME	220,444
RETAINED EARNINGS, OCTOBER 1	<u>105,316</u>
RETAINED EARNINGS, SEPTEMBER 30	<u><u>\$ 325,760</u></u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 204,608
Payment to suppliers	(333,637)
Payment to employees	(313,342)
NET CASH USED IN OPERATING ACTIVITIES	<u>(442,371)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal grants	149,979
State grants	246,154
Local contributions	6,400
Property taxes	281,281
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>683,814</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payment of line of credit	(71,900)
Purchase of capital assets	(50,355)
Proceeds from capital contributions	50,355
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(71,900)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of certificate of deposit	(75,000)
Interest received	2,336
NET CASH USED IN INVESTING ACTIVITIES	<u>(72,664)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

CASH , OCTOBER 1	<u>2,306</u>
CASH , SEPTEMBER 30	<u>\$ 99,185</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY(USED IN) OPERATIONS

Loss from operations	\$ (455,530)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	68,194
Increase in accounts receivable	(5,715)
Decrease in prepaid expense	(5,606)
Increase in accounts payable	(46,876)
Decrease in accrued payroll	(1,759)
Decrease in accrued vacation and sick pay	4,921
	<u>(442,371)</u>
	<u>\$ (442,371)</u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clinton Area Transit System (the Transit) was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Clinton on October 18, 2001. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

Prior to the formation of Clinton Area Transit System, public transportation services were provided to the residents of Clinton County by a nonprofit organization know as Community Resource Volunteers. To facilitate the transition of providing transportation to the residents of Clinton County, vehicles and other related equipment purchased by Community Resource Volunteers with federal and state assistance were transferred to the Transit during the fiscal year ended September 30, 2002.

Clinton Area Transit System is eligible to receive federal and state financial assistance in the form of operating and capital grant funding to support its operation, expand marketing, and specialized services, and replace buses and other equipment. Clinton Area Transit System provides demand response services within Clinton County. The Transit also provides special services on a contractual basis to nonprofit agencies within the County.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of Clinton Area Transit System. The Transit has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

B. Basis of Presentation

The accounts of Clinton Area Transit System are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Transit resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

C. Enterprise Fund

This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary organization of Clinton Area Transit System.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Transit has elected not to follow subsequent private-sector guidance.

E. Measurement Focus, Basis of Accounting, and Financial Statements

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Concluded

F. Cash

Clinton Area Transit System cash accounts consist of checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements.

G. Receivables

Receivables have been recognized for all significant amounts due the Transit. Management feels all accounts receivable are collectible therefore, no allowance for bad debt has been recorded.

H. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are defined by the Transit as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal and/or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are as follows:

ASSET	DEPRECIABLE LIFE
Vehicles	4-7 years
Equipment	4-7 years

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 2: CASH

Clinton Area Transit System is authorized to invest any of its funds in one or more of the following:

- A. Bonds, securities and other obligations of the United States or any agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, saving bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this state under the laws of state or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21,145 and 21,146 of Michigan Compiled Laws.
- C. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- D. The United States government or federal agency obligations repurchase agreements.
- E. Bankers acceptances of United States banks.
- F. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21,143, to secure deposits of state surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

The amounts below are classified by Governmental Accounting Standards Board Statement No. 40 in the following category:

Cash on the balance sheet consists of the following:

Checking and savings accounts	\$ 98,645
Petty cash	<u>540</u>
	<u>\$ 99,185</u>
Investments	
Certificate of deposit	<u>\$ 75,790</u>

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 2: CASH - Concluded

Deposits are carried at fair market value. The Transit is authorized to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

At September 30, 2006, the Transit's cash and investments were classified as follows:

Insured	\$ <u>100,000</u>
Uninsured and uncollateralized	\$ <u>74,435</u>

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Transit's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Transit's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings have been identified above for the Transit's investments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Transit does not have a deposit policy for custodial credit risk. As of September 30, 2006, \$89,174 of the Transit's bank balance of \$189,174 was exposed to custodial credit risk.

Uninsured and uncollateralized	\$ <u>89,174</u>
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CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 3: DUE FROM FEDERAL AND STATE GOVERNMENTS

Clinton Area Transit System receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30, 2006, is as follows:

Net eligible expenses	\$ 582,190	
Funding rate	<u>17.0 %</u>	
Section 5311 revenue	98,972	
Funding received	<u>80,819</u>	
Balance due from year ended September 30, 2006		\$ 18,153
Balance due from prior years		1,316
Balance due from RTAP		<u>1,081</u>
Due from federal government		<u>20,550</u>

Clinton Area Transit System receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement as of September 30, 2006, is as follows:

Eligible costs	\$ 589,190	
Funding rate	<u>38.62%</u>	
Funding earned	227,545	
Funding received	<u>221,685</u>	
Balance due from year ended September 30, 2006		\$ 5,860
Balance due from prior year		<u>9,339</u>
Due from state government		<u>15,199</u>
Due from state and federal government		<u>\$ 35,749</u>

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 4: CAPITAL ASSETS

A summary of the Transit's capital assets at September 30, 2006, follows:

	BALANCE SEPTEMBER 30, 2005	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2006
Vehicles	\$ 669,275	\$ 44,263	\$	\$ 713,538
Equipment	<u>39,260</u>	<u>6,092</u>	<u> </u>	<u>45,352</u>
Total	708,535	50,355		758,890
Less: accumulated depreciation	<u>551,759</u>	<u>68,194</u>	<u> </u>	<u>619,953</u>
Net property and equipment	\$ <u>156,776</u>	\$ (<u>17,839</u>)	\$ <u> </u>	\$ <u>138,937</u>

The depreciation expense was \$68,194 for year ended September 30, 2006.

NOTE 5: SHORT-TERM DEBT

The Transit uses a revolving line of credit for \$80,000 to cover potential cash flow shortages. Short-term debt activity for the year ended September 30, 2006, was as follows:

	BEGINNING BALANCE	DRAWS	REPAYMENTS	ENDING BALANCE
Line of credit	\$ <u>71,900</u>	\$ <u>3,500</u>	\$ <u>75,400</u>	\$ <u> </u>

The revolving line of credit renews annually.

NOTE 6: COMPENSATED ABSENCES

Paid leave time is earned in varying amounts depending on an employee's classification and the number of hours worked. A maximum of forty (40) hours of paid leave time may be carried over to the subsequent year.

Full time employees can earn one hundred twenty (120) hours of paid leave time per year. Leave time is accrued at a rate of 4.616 hours per pay period. Part time employees earn two (2) hours of paid leave time for any pay period in which at least forty (40) hours are worked.

Accrued sick and vacation payable at September 30, 2006 was \$7,622.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 7: RETIREMENT PLAN

Clinton Area Transit System employees participate in a Simple IRA Plan, which became effective on May 2, 2002.

All Transit System employees who are expected to receive at least \$5,000 in compensation for the calendar year are eligible to participate in the plan. The Transit is required to pay contributions to the plan that match the participant's contribution up to a maximum of three (3) percent of employee compensation. Participants may contribute up to one hundred (100) percent of their salary, up to the IRS maximum.

For the year ended September 30, 2006, the Transit contributed \$2,772 to the retirement plan. The Transit had a total payroll of \$328,510 and covered payroll of \$116,299.

NOTE 8: RELIANCE ON FUNDING SOURCES

The Transit receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Transit's programs and activities.

NOTE 9: RISK MANAGEMENT

Clinton Area Transit System is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of Clinton Area Transit System.

Clinton Area Transit System pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

Clinton Area Transit System continues to carry commercial insurance for employee health, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Concluded
SEPTEMBER 30, 2006

NOTE 10: CONTINGENT LIABILITIES

Under the terms of various federal and state grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE 11: PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of the date they are levied. In August, 2005, the citizens of Clinton County passed a millage for operational purposes. The total mills levied in December, 2005 were .14 mills. Property tax collections as of September 30, 2006 was \$281,281.

SUPPLEMENTARY INFORMATION

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OPERATING REVENUES	
Passenger fares	\$ 64,584
Contract rides	<u>145,735</u>
 TOTAL OPERATING REVENUES	 \$ <u><u>210,319</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING EXPENSES BY CATEGORY
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
Labor				
Operator's salaries and wages	\$ 171,123	\$	\$	\$ 171,123
Other salaries and wages	2,316	26,158	55,634	84,108
Dispatcher's salaries and wages	61,273			61,273
Fringe benefits				
Other fringe benefits	46,653	2,675	16,656	65,984
Retirement	1,731		1,041	2,772
Contractual services				
Advertising fees			2,928	2,928
Audit cost			7,000	7,000
Other services	5,997	34,890	19,564	60,451
Materials and supplies consumed				
Fuel and lubricants	63,320			63,320
Tires and tubes	6,471			6,471
Other materials and supplies	12,859	5,226	9,812	27,897
Utilities			6,942	6,942
Insurance	17,335			17,335
Other insurance			4,836	4,836
Taxes and fees	1,091		19	1,110
Miscellaneous expenses				
Travel and meetings	228	8	4,868	5,104
Association dues			290	290
Interest expense			1,580	1,580
Operating leases and rentals			7,131	7,131
Depreciation	68,194			68,194
TOTAL OPERATING EXPENSES	\$ 458,591	\$ 68,957	\$ 138,301	\$ 665,849

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - LOCAL
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NON-OPERATING REVENUES - LOCAL

Local operating assistance

Property tax revenue \$ 281,281

Advertising 4,300

Miscellaneous 2,100

Interest earnings 3,126

TOTAL NONOPERATING REVENUES - LOCAL \$ 290,807

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - STATE AND FEDERAL
FOR THE YEAR ENDED SEPTEMBER 30, 2006

State of Michigan Grants	
Formula operating assistance (ACT 51)	\$ 227,545
Adjustment of prior year reimbursement	4,188
Capital grants-5309 Z10/Z11	<u>10,071</u>
Total State Grants	<u>241,804</u>
Federal grants	
U.S.D.O.T. operating grant - Section 5311	98,972
Adjustment of prior year reimbursement	607
Capital grants-5309 Z10/Z11	40,284
R.T.A.P.	<u>3,500</u>
Total Federal Grants	<u>143,363</u>
 TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	 \$ <u><u>385,167</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NET ELIGIBLE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE
OPERATING EXPENSES		
Labor	\$ 316,504	\$ 316,504
Fringe benefits	68,756	68,756
Contractual services	70,379	70,379
Materials and supplies	97,688	97,688
Utilities	6,942	6,942
Insurance	22,171	22,171
Taxes and fees	1,110	1,110
Miscellaneous	5,394	5,394
Interest	1,580	1,580
Leases and rentals	7,131	7,131
Depreciation	68,194	68,194
TOTAL OPERATING EXPENSES	<u>665,849</u>	<u>665,849</u>
LESS INELIGIBLE EXPENSES		
Audit fee	7,000	
Short term interest expense	1,580	1,580
Charter expenses	3,385	3,385
RTAP	3,500	3,500
Depreciation	68,194	68,194
TOTAL INELIGIBLE EXPENSES	<u>83,659</u>	<u>76,659</u>
NET ELIGIBLE EXPENSES	<u>\$ 582,190</u>	<u>\$ 589,190</u>
Maximum Section 5311 reimbursement 17.00% of \$ 582,190	<u>\$ 98,972</u>	
Maximum State operating assistance 38.62% of \$589,190		<u>\$ 227,545</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	PUBLIC TRANSPORTATION MILEAGE
Demand Response Vehicle Miles	
First Quarter	88,325
Second Quarter	95,404
Third Quarter	86,686
Fourth Quarter	<u>63,843</u>
Total Demand Response Vehicle Miles	<u><u>334,258</u></u>

NOTE - The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

CLINTON AREA TRANSIT SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 05-06	20.509	2003-0095/Z12	\$ 98,972	\$ 98,972
Adjustment of prior year	20.509		607	607
RTAP training funds	20.509		3,500	3,500
Capital grant-5309	20.509	2002-0095/Z10	6,400	6,400
Capital grant-5309	20.509	2002-0095/Z11	33,884	33,884
TOTAL FEDERAL AWARDS			<u>143,363</u>	<u>143,363</u>
STATE				
<u>Michigan Department of Transportation</u>				
Operating Assistance - ACT 51				
FY 05-06	N/A	N/A	227,545	227,545
Adjustment of prior year			4,188	4,188
Capital grant-5309	20.509	2002-0095/Z10	1,600	1,600
Capital grant-5309	20.509	2002-0095/Z11	8,471	8,471
TOTAL STATE AWARDS			<u>241,804</u>	<u>241,804</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 385,167</u>	<u>\$ 385,167</u>



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have audited the financial statements of the business-type activities of Clinton Area Transit System as of and for the year ended September 30, 2006 which collectively comprises the Transit's basic financial statement and have issued our report thereon November 30, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

East Lansing, Michigan
November 30, 2006



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS RECOMMENDATIONS

Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have recently completed our audit of the records of the Clinton Area Transit System for the year ended September 30, 2006. As part of our audit, we made a study and evaluation of the Organization's system of internal accounting controls and procedures to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

Although we did not observe any material errors or weaknesses in accounting or financial management, the following recommendations are intended to improve the efficiency and effectiveness of control procedures:

PRIOR YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

Some invoices are not approved before payment and also not properly cancelled. We recommend that approval signature, date paid, general ledger account and check number are written on each invoice to be properly cancelled. Also, all voided checks should be stamped "void" on the signature line. This will make it easier to trace disbursements and to verify payment. **Management response: All invoices will be approved by the General Manager before payment is made and the check will be voided by cutting out the signature line.** We recommend the invoices be disbursed to the correct department for review and approval by each department's manager. This will ensure only authorized and accurate invoices are on the printout that is given to the Board for approval. This will increase controls over cash disbursements. **This has been implemented.**

Accounts payable checks are returned to the preparer for mailing after they are signed. We recommend that after the accounts payable checks are signed, they be given to someone independent of the accounts payable function for mailing. This will provide better controls in the cash disbursements area. **This has not been implemented.**

During our audit testing, we noted that on two cash disbursements, the check amount did not match the invoice amount and no explanation was on the invoice. We recommend that all payments match the invoice amount unless a clear explanation is included with the file. **We noted during our testing that this recommendation has been implemented.**

We noted in several instances, a receipt was provided for reimbursement without a listing of the articles purchased or an explanation of the expense on credit card statements. We recommend that any receipt presented for reimbursement be supported with an itemized statement from the vendor or a sufficient statement from the employee detailing the items purchased and approved by the General Manager and the Board. **We noted during our testing that this recommendation has been implemented.**

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PRIOR YEAR RECOMMENDATIONS - Continued

CASH DISBURSEMENTS - Concluded

During our audit testing, we noted that one voided check could not be found. We recommend that checks that are voided be properly defaced and filed with the bank statements. **We noted during our testing that this recommendation has been implemented.**

We noted during our audit testing two instances of incorrect account numbers on invoices. The expenses were booked to the correct account. We recommend that the account number on invoices be corrected when entered to an account other than the one written on the invoice. **We noted during our testing that this recommendation has been implemented.**

CASH RECEIPTS

Supporting documentation, (such as copies of checks taken in) is sometimes not attached to the deposit ticket. We recommend that copies of all checks taken in and all driver signed manifests be attached to deposits. We also recommend that the deposit slip be prepared by someone independent of cash receipts and accounts receivable records. This will provide better internal control over cash since cash receipts are not issued with every receipt. **We noted during our audit that this recommendation has been implemented.**

Cash receipts were not used in sequential order. We recommend that all prenumbered cash receipts be used in order. **Management response: Drivers are now required to sign all manifests before turning in to the bookkeeper. Also, a person independent of the accounts receivable function will open mail and prepare daily deposit. We noted during our testing that some of these recommendations have not been implemented.** Copies of the checks are made. Each bus driver has their own prenumber cash receipt book and each driver uses receipts in order. However, not all driver manifests are signed. The general manager opens the mail and initials deposit slips prepared by the bookkeeper. **Management response: All driver's manifests will be signed and all copies will be included in deposits.**

During our audit, we noted lack of segregation of duties in the cash receipt area. During our testing, we noted many instances where the drivers manifest detail did not agree to the drivers log and to the amount of the daily deposit. It also appears that pass cards were not sold for the correct amount. We recommend that procedures be put into place to ensure the driver's manifest and drivers log agree to the daily deposit. This would include training each driver on how to fill out each form correctly. Also, the drivers log should be updated for the correct price of all pass cards. **We noted during our testing that this recommendation has been implemented. Management response: This will be implemented.**

Additionally, we recommend that the bus drivers' cash be locked or kept in a secure location on the bus until the end of the driver's shift. We recommend someone independent of reconciling the deposit and entering the cash receipts into the computer system take the deposit to the bank. **We noted during our testing that this recommendation has not been implemented. Management response: This will be implemented.**

We noted during our audit that receipts are given to customers only when the customer asks for a receipt. We recommend a receipt be given to the customer even when the customer does not ask for one. The receipts should be given in numeric order. This will improve documentation of cash receipts and thereby will improve controls over cash receipts. **We noted during our testing that this recommendation has not been implemented.**

We noted during our audit that deposits are not made daily. We recommend deposit be made daily regardless of the amount of the deposit. This will increase controls over cash receipts. **We noted during our testing that this recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS - Continued

PAYROLL

It was noted during our audit that the person preparing the payroll checks is also the person distributing them after they are signed. We suggest that in order to provide better payroll controls, the payroll check preparer not get the paychecks back after they have been signed. **We noted during our testing that this recommendation has been implemented.**

During our audit, we noted that pay rate authorizations were not noted in the employee files. We also noted differences between employees' authorized withholding and the withholding in the payroll system. We recommend that a file be established for each employee and that a written pay rate authorization be placed in each file. We further recommend that tax withholding forms (federal, state and local if applicable) and other withholding authorizations (AFLAC) be placed in the file. This will improve the controls over payroll. **We noted during our testing that all of these recommendations have been implemented except for the pay rate authorization. Management response: This will be implemented.**

During our audit, two payroll check stubs and time sheets were not found in the files. We recommend that a check sheet system be implemented where a list is prepared for all employees with time sheets for the pay period and attached as a facing page for the pay periods' time sheets. This system will strengthen the control over the payroll records. **This has been implemented.**

During our audit, we noted that the 2002 version of the federal form W-4 was still being used. We recommend that the form be replaced with the current year version. Also, each employee should complete a W-4 for the State of Michigan. **We noted during our testing that this has been implemented.**

GENERAL

Bank Reconciliation

We noted during the audit that the bank reconciliations are not being reconciled to the general ledger. We recommend that the monthly bank reconciliation agree to the general ledger. This will help ensure the accuracy of the cash accounts on a monthly basis. **This recommendation has been implemented.**

CURRENT YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

During our testing, we noted the check number and date of check are not written on the invoice itself to cancel the invoice. Rather, the invoice coversheet has this information. The invoice is stamped "paid" only. However, we also noted instances where more than one invoice was paid using one check but not all invoices were cancelled. We recommend the check number and date of check also be written on the invoice itself as it may become detached from the invoice coversheet. This will increase controls over cash disbursements by reducing the chance for duplicate payment of invoices.

During our testing, we noted an instance where the check was payable to an authorized check signer and signed by the same authorized check signer. We recommend having a different authorized check signer sign for checks such as this. This will increase controls over cash by helping to reduce the chance of theft and fraud. **Management response: This will be implemented during the current year.**

CURRENT YEAR RECOMMENDATIONS

CASH DISBURSEMENTS - Concluded

During our audit, we noted checks issued to replenish petty cash are written payable to "CASH". We recommend the check to replenish petty cash be written payable to an individual. This will increase controls over cash by ensuring only an authorized individual cashes the check and gets the cash to replenish petty cash thereby reducing the chance for theft or fraud. **Management response: This will be implemented during the current year.**

PAYROLL

Payroll taxes are prepared by the same individual who performs the payroll function. We recommend having someone independent of the payroll function prepare the payroll taxes.

The payroll journal is not reviewed prior to the checks being printed. We recommend a preliminary payroll journal be printed and given to the General Manager for review prior to the printing of payroll checks. This will increase controls over payroll. **Management response: This will be implemented during the current year.**

We noted during our testing an instance where the hours per the timesheet did not agree with the hours paid per the payroll journal. The payroll period prior to this check had an extra hour under another category. Therefore, the system carried over this extra hour. We recommend carefully reviewing the hours entered into the payroll software. This will increase controls over payroll, ensure no one is overpaid, and will help to ensure this situation does not happen again. **Management response: This will be implemented during the current year.**

CASH RECEIPTS

Monies received over the counter are not totaled at the end of the day. Rather, they are totaled the next morning. We recommend the monies be totaled at the end of the day prior to being put in the safe. This will help to increase controls over cash receipts by helping to decrease the chance for theft and fraud. **Management response: This will be implemented during the current year.**

Checks are not stamped "FOR DEPOSIT ONLY" immediately upon receipt. We recommend the checks be stamped immediately. This will increase controls over cash receipts by helping to decrease the chance for theft and fraud. **Management response: This will be implemented during the current year.**

We noted during our testing an instance where a driver's manifest was not filled out completely. We recommend requiring the drivers to fill out the driver's manifest so that it is complete. This will increase controls over cash and make it easier to follow the audit trail. **Management response: This will be implemented during the current year.**

CURRENT YEAR RECOMMENDATIONS - Concluded

FUEL CREDIT CARD

We noted during our audit that the usage of the fuel credit card for each bus or minivan is not reviewed in detail. The dollar amount is compared to the receipt given by the bus driver, but the usage is not reviewed. We recommend reviewing the gallons and times per day each bus or minivan was fueled. If a bus or minivan was fueled twice in one day, we recommend obtaining an explanation for the extra usage. Further, we recommend each driver keep a fuel log. The fuel log would include the date, mileage, and dollar amount for each time the fuel credit card is used. This log should be compared to the fuel statement. Requiring the drivers to keep a fuel log and reviewing the gallons and how frequently each fuel credit card is used will help to detect and reduce fraud and theft. **Management response: This will be implemented during the current year.**

ELECTRONIC TRANSFERS

We noted during our testing, the Organization has the ability to do electronic transfers between their bank accounts. Currently, a second authorization is not required by the bank. We recommend requiring the bank to obtain a second authorization prior to any electronic transfer. The bank should either call or e-mail a second authorized individual for final approval. Furthermore, the transfers should be restricted to only the Organization's accounts within the bank. This will increase controls over cash and help to detect and reduce fraud and theft. **Management response: This will be implemented during the current year.**

We are grateful to the Organization's management and employees for the assistance and cooperation that we received during the audit, and we thank them.

Very truly yours,


Certified Public Accountants

East Lansing, Michigan
November 30, 2006